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July 13, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Securities Act s. 48,76 Corp Acquisitions & Reorgs - Exemption from s. 34(1)(a) requirement to be registered as a dealer for a trade and s. 61 requirement to file a prospectus for a distribution in connection with a corporate acquisition or reorganization - The issuer will make an offer to acquire all of its outstanding debentures from the debenture holders in exchange for new convertible debentures; the offer is not an issuer bid because the original debentures are not convertible; the issuer will provide the debenture holders with an offering memorandum that contains prospectus level disclosure about the new debentures, the transaction and other matters

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 34(1)(a), 48, 61 and 76

In the Matter of
the Securities Legislation
of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador
(the “Jurisdictions”)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of SR Telecom Inc. (the “Filer”)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the “Decision Maker” or collectively, the “Decision Makers”) in each of the Jurisdictions has received an application from the Filer, for a decision under securities legislation of the Jurisdictions (the “Legislation”), for an exemption from the prospectus and dealer registration requirements of the Legislation in connection with the proposed issuance of new 10% convertible redeemable secured debentures, due 2010 (the “New Convertible Debentures”) in exchange for the Filer’s issued and outstanding 8.15% Debentures, due April 22, 2005 (the “8.15% Debentures”) and in payment

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of interest on the New Convertible Debentures and the issuance of common shares in Manitoba, if any, upon the Mandatory Conversion (defined below) (the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Applications:

- (a) the *Autorité des marchés financiers* is the principal regulator for this application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 – Definitions have the same meaning in this decision unless they are defined in this decision.

Representations

The decision is based on the following facts represented by the Filers:

1. The Filer provides fixed wireless access solutions for voice, data and Internet access applications. The Filer designs, markets and sells fixed wireless products to telecommunications service providers, who in turn use the products to provide their subscribers with a full range of telecommunications services.
2. In addition, through its majority-owned subsidiary Comunicacion y Telefonía Rural (“CTR”), the Filer provides local telephone service and Internet access to residential, commercial and institutional customers, and operates a network of payphones in a large, predominantly rural area of Chile.
3. The Filer was incorporated under the *Canada Business Corporations Act* in 1981 and has been a reporting issuer (or the equivalent) since 1986, when it consummated an initial public offering in Canada. The Filer’s common shares (“Common Shares”) are currently listed on the Toronto Stock Exchange under the symbol “SRX” and are quoted on the Nasdaq National Market under the symbol “SRXA”.
4. The Filer is a reporting issuer in all provinces of Canada and in the Northwest Territories and is not in default of securities legislation applicable therein. The Filer is a registrant with the United States Securities and Exchange Commission.
5. On April 22, 1998, the Filer issued CDN\$75 million of 8.15% Debentures pursuant to a short form prospectus of which CDN\$71 million currently remain outstanding.

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6. The 8.15% Debentures matured on April 22, 2005 and the Filer did not have sufficient funds to repay the 8.15% Debentures and accrued and unpaid interest on such date. The 8.15% Debentures holders have waived the maturity of such debentures until June 30, 2005 unless otherwise agreed to by the required majority of the 8.15% Debenture holders.
7. Pursuant to the terms of an agreement entered into by the Filer with a group representing approximately 75% of outstanding principal amount of 8.15% Debentures, the Filer has agreed to exchange (the "Debenture Exchange") the outstanding \$71 million in principal amount of its 8.15% Debentures together with all accrued interest of approximately \$3.5 million into approximately \$74.5 million of New Convertible Debentures.
8. The Filer intends to implement the Debenture Exchange by way of an offer to exchange and consent solicitation (the "Exchange Offer") made to all holders in Canada and accredited investors in the United States of the 8.15% Debentures pursuant to which the Filer will offer to exchange the 8.15% Debentures and all accrued and unpaid interest for New Convertible Debentures. The Filer will solicit the consent of 8.15% Debenture holders who tender into the Debenture Exchange to certain amendments to the terms of the indenture governing any 8.15% Debentures remaining outstanding after the Debenture Exchange in order to extend the maturity of such 8.15% Debentures to at least the maturity date of the New Convertible Debentures and to remove certain covenants of the Filer. Such amendments will take effect upon closing of the Debenture Exchange.
9. Interest on the New Convertible Debentures is payable in cash or in kind (by the issuance of additional New Convertible Debentures) at the option of the Filer. In addition, each \$1,000 in principal amount of New Convertible Debentures will be convertible into approximately 4,694 (the "Conversion Rate") Common Shares, representing a conversion price of approximately \$0.21 per Common Share. The Conversion Rate will be adjusted to account for interest accrued pending closing such that the aggregate equity holding represented by the Common Shares underlying the New Convertible Debentures will not exceed 95.2% of the issued and outstanding Common Shares on a fully diluted basis before giving effect to the Rights Offering (as described in paragraph 19 below).
10. On the earlier of (i) the day after the record date for the Rights Offering or (ii) another date to be agreed upon by the parties, \$10 million of New Convertible Debentures will be converted (the "Mandatory Conversion") at the Conversion

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Rate into approximately 46,939,218 Common Shares, representing approximately 73% of the issued and outstanding Common Shares.

11. Subject to anti-dilution events and other adjustments, the maximum number of Common Shares that may be issued, upon the conversion of all of the New Convertible Debentures into Common Shares at the Conversion Rate, is approximately 302,328,400 Common Shares. In addition, to the extent interest on the New Convertible Debentures is paid in kind, approximately 30 million additional Common Shares, subject to adjustment, may be issued on conversion of the New Convertible Debentures issued in payment of interest in any year during the term of the New Convertible Debentures.
12. In connection with the Exchange Offer, the Filer will distribute an Offering Memorandum to all 8.15% Debentures holders that will contain prospectus level disclosure, including a description of the Filer, the mechanics of the Debenture Exchange including the consent solicitation, a description of the material elements of the restructuring and the Filer's intent to pursue the Rights Offering, a pro forma capitalization table, a description of amendments to the 8.15% Debentures, a summary of Canadian and United States Income Tax considerations, a description of the New Convertible Debentures, a description of the Common Shares and a summary of risk factors relating to the Debenture Exchange and the Filer.
13. The Exchange Offer will be subject to numerous conditions, including the tender and consent by the holders of at least 75% of the outstanding 8.15% Debentures.
14. As the aggregate number of Common Shares issuable in connection with the Debenture Exchange will exceed the maximum number of securities issuable without security holder approval under the rules of the Toronto Stock Exchange (the "TSX"), the Filer is relying on an exemption from the security holder approval requirements provided for under Section 604(e) of the TSX Company Manual on the basis of its serious financial difficulty.
15. Upon the recommendation of a special committee of independent directors of the Filer, who are free from any interest in the transactions and are unrelated to any of the parties involved in the transactions, the Board of Directors of the Filer has determined that the Filer is in serious financial difficulty, that the transactions referred to above are designed to improve its financial situation and are reasonable in the circumstances, and has authorized the Filer to make the application to the TSX.

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16. A restricted group of 8.15% Debenture holders has also entered into a credit agreement with the Filer which provides for a five-year US\$39.6 million (CDN\$50 Million) secured credit facility (the "Credit Facility") to the Filer of which US\$15.85 million was made immediately available to the Filer and \$[4.85] million has been drawn down to date, with the balance to be available over the next three quarters, subject to certain conditions.
17. The financial terms of the Credit Facility includes the following: a 2% up-front facility fee (based on the full US\$39.6 million facility amount) and interest paid partly in cash at a rate equal to the greater of 6.5% and the three-month U.S. Dollar LIBOR rate plus 3.85% and partly paid in kind at a rate equal to the greater of 7.5% and three-month U.S. Dollar LIBOR plus 4.85%. The Credit Facility is fully secured with a first charge against all of the assets of the Filer. In addition the Credit Facility contemplates a payout fee of 5% (based on U.S.\$39.6 million facility amount) or 2% of distributable value at maturity.
18. The Filer has entered into a waiver and amendment agreement (the "Amendment Agreement") with the lenders to the Filer's Chilean subsidiary, CTR (the "CTR Lenders") to restructure the terms of loans to CTR (the "Restructuring"). Pursuant to the terms of the Amendment Agreement, the CTR Lenders have agreed to restructure the repayment schedule of their loan agreements and to postpone the maturity of the loans for three years from the date of the implementation of the Restructuring. As part of these arrangements, the Filer has guaranteed the performance of the obligations of CTR to the CTR Lenders up to an amount of US\$12 million. This guarantee will be secured against the assets of the Filer and rank *pari passu* with the Convertible Debentures behind the security for the Credit Facility The guarantee may be reduced over time to the extent the Filer makes payments to the CTR Lenders on account of principal. In addition, the CTR Lenders have agreed not to exercise or enforce any remedies they may have against the Filer until May 17, 2008 or such earlier date as there may be a default by the Filer under its new Credit Agreement or upon an insolvency or bankruptcy of the Filer. The Filer has also agreed to provide certain management, technical, inventory and other support to CTR.
19. In addition, as soon as practicable following the closing of the Exchange Offer, the Filer intends to file a preliminary prospectus relating to a Rights Offering to its shareholders. Pursuant to the Rights Offering, the Filer will offer to shareholders holding its currently outstanding Common Shares the right to subscribe to up to \$40 million of new Common Shares at a price to be determined, but no less than \$0.254 per share.

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20. The first \$25 million raised under the Rights Offering will be used for working capital and general corporate purposes and all amounts raised in excess of \$25 million will be applied as follows: (i) 50% to working capital and general corporate purposes; and (ii) 50% to a *pro rata* redemption of the then outstanding New Convertible Debentures and the principal amount of the loans to CTR by the CTR Lenders at 95% of their face value.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted, provided that the first trade or resale of New Convertible Debentures or Common Shares in a Jurisdiction shall be deemed to be a distribution or primary distribution to the public under the Legislation of such Jurisdiction unless the following conditions are satisfied:

for a resale in Quebec:

1. The Filer is a reporting issuer in Quebec;
2. The Filer has been a reporting issuer in Quebec during the four months immediately preceding the resale;
3. No extraordinary commission or other consideration was paid in respect of the resale;
4. No extraordinary effort was made to prepare the market or to stimulate demand for the New Convertible Debentures;
5. If the selling security holder is an insider of the Filer, it did not have reason to believe that the Filer is in default of its obligations under securities legislation;
or

for a resale in a Jurisdiction other than Quebec, the conditions in Section 2.6(3) of Multilateral Instrument 45-102 are satisfied.

Josée Deslauriers
Directrice des marchés des capitaux